

United States of America DEPARTMENT OF COMMERCE	DEPARTMENT ADMINISTRATIVE ORDER <u>213-3</u>	
<b>DEPARTMENT ADMINISTRATIVE ORDER SERIES</b>	DATE OF ISSUANCE  December 14, 1989	EFFECTIVE DATE  December 8, 1989
SUBJECT  <p style="text-align: center;">INSPECTOR GENERAL AUDITING</p>		
<p><u>SECTION 1. PURPOSE.</u></p> <p>.01 This order describes the audit authority of the Inspector General and prescribes policies and procedures for carrying out and reporting on audits conducted by the office of Inspector General and regulating other matters related to audits.</p> <p>.02 This revision reflects the recent reorganization within the OIG and makes several other technical changes.</p> <p><u>SECTION 2. AUTHORITY.</u></p> <p>.01 The Inspector General (IG) has the authority to conduct and supervise audits of the programs and operations of the Department of Commerce as provided in the Inspector General Act of 1978, as amended (5 U.S.C.A. App. 3), and as implemented in Department Organization Orders 10-13 and 23-1. All audit activities within the Department are within the responsibility of the IG and will be carried out by or under the direction of the Office of Audits (OA), Office of Inspector General (OIG), headed by the Assistant Inspector General for Auditing (AIGA).</p> <p>.02 The IG is authorized, by law, to have access to all records reports, audits, reviews, documents papers, recommendations and other material available to the Department which relate to Departmental programs and operations.</p> <p><u>SECTION 3. RESPONSIBILITIES OF THE OIG.</u></p> <p>.01 <u>Internal Audits.</u> The OA, to the extent resources are available, shall perform internal audits and report on all operating units, programs, activities and functions of the Department. While it is recognized that certain activities and programs are of greater significance than others and should be audited more frequently, it is generally the goal of the Department that all operating units, programs, activities and functions be audited once during each five year period. Internal audits provide an objective basis to determine and report on whether:</p>		

- a. financial operations are properly conducted and financial reports are presented fairly;
- b. policies, plans, systems, and procedures are adequate, conform to applicable laws and regulations, and are being applied with;
- c. resources are fully accounted for, adequately safeguarded, and managed and used in an economical and efficient manner; and
- d. program. operations are effective and desired results and objectives are being achieved.

.02 External Audits. The OA, to the extent resources are available, shall: perform external audits of documentation in support of claims, costs, cost proposals, and cost and pricing data arising from contracts, grants, cooperative agreements, loans, and other financial agreements entered into or proposed by all offices or operating units of the Department; report the results of such audits in a timely manner to appropriate management officials; and assure that timely and appropriate action is taken to implement the findings and recommendations in audit reports in order to adequately protect the best interest of the Department. Such audits shall be carried out by the OA or, on a reimbursable or other basis, by other Federal agencies, State and local Government audit organizations, or independent public accountants (see paragraph 3.06 of this Order) under arrangements made by the OA.

.03 Other Functions. In order to prevent and minimize opportunities for fraud, waste and abuse, the OIG shall conduct vulnerability assessments, of Department programs and operations, review and make recommendations on existing and proposed legislation and regulations, and provide services to assist Departmental management to develop and implement new programs, management systems, and procedures for adequate internal controls.

.04 Audits Performed by Others. The OA shall rely on audits of Commerce funded organizations, programs, activities and functions performed by State and local Government audit organizations or independent public accountants, under provisions of applicable office of Management and Budget (OMB) Circulars, to the fullest extent practicable, provided:

- a. the audit reports and working papers are available for review by the OA;
- b. the audits are performed in accordance with generally accepted auditing standards (including the audit standards issued by the Comptroller General of the United States and OMB); and
- c. the audits otherwise meet the requirements of the OIG, Department of Commerce.

.05 Audit Standards. The OA shall:

- a. comply with standards established by the Comptroller General for audits of Federal establishments, organizations, programs, activities, and functions;

- b. establish guidelines for determining when it is appropriate to use non-Federal auditors; and
- c. take appropriate steps to assure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General and OMB.

.06 IPAs. Independent public accountants (IPAs) engaged to perform financial and compliance audits of Commerce financed organizations must be either Certified Public Accountants (CPAs) or public accountants licensed on or before December 31, 1970, by State regulatory authorities.

#### SECTION 4. RESPONSIBILITIES OF DEPARTMENT OFFICIALS AND EMPLOYEES.

.01 General. Secretarial officers and the heads of operating units are responsible for assuring compliance with Departmental policies; establishing and executing plans and procedures for preventing fraud, waste and abuse in their programs and operations; extending full cooperation to the OA in implementing an effective audit program; and objectively reviewing and evaluating audit findings and recommendations. Although the Secretarial officers and heads of operating units do not have to accept all audit recommendations, in accordance with Section 9. of this Order, and DAO 213-5, they must take timely action on all accepted recommendations and provide justification for rejection of recommendations.

#### .02 Audit Liaison.

a. Each Secretarial officer or the head of each operating unit shall appoint a senior official as audit liaison who will be the primary contact between OIG and the Departmental office or operating unit at the headquarters level for the conduct of audits. Where practicable, the same person should be the audit liaison for all audit matters, including the handling of General Accounting Office (GAO) reports and the resolution of OIG and GAO audit recommendations. The audit liaison also will keep the OIG informed of changes within the Departmental office or the operating unit that affect audit planning; e.g., changes in organization, legislation, program emphasis, and funding.

b. Within thirty days after the effective date of this Order, each Secretarial officer or operating unit head shall notify the OIG, Office of Inspections and Resource Management (OIRM), of the name and telephone number of the person designated as audit liaison. Operating unit officials may formally designate lower level liaison officers to serve as contacts with OA regional offices. The OIRM should be notified of any such designations.

.03 Requests for Assistance. Department officials shall direct requests for audits or other audit assistance as set forth in paragraphs 5.02 and 6.01 of this Order. Department officials may at any time direct to the personal attention of the IG any audit matter which is deemed urgent or unusually sensitive, or which involves security issues.

.04 Cooperation with the OIG. It is Department of Commerce policy that all employees fully cooperate with the OA so that audits may be conducted and brought to a prompt and appropriate conclusion. Department officials shall make every effort to assist the OA in achieving the objective of effective audits when requested to do so. Major areas where Department officials can be of assistance are:

- a. Detailing specialists or technicians to audit teams either for entire audits or for particular audit segments, when their expertise is requested by the AIGA; and
- b. Providing special briefings when requested by the IG or AIGA.

.05 Access to Records. Consistent with all current laws and regulations protecting the confidentiality of individually identifiable information, each Departmental office or operating unit and each employee shall furnish OA, upon request, access to and copies of all records, reports, audits, reviews, documents, papers, recommendations, or other materials available to it. In conformity with law, Department officials shall also provide the necessary authorizations for OA access to computer and other data or records when such are kept by another government agency or by any outside contractor, grantee or other recipient of Departmental assistance.

.06 No Reprisals. No employee or official who has authority to take, direct others to take, recommend or approve any personnel action, shall direct any employee to refrain from making a complaint or reporting information. Further, no employee or official shall take or threaten to take any action against any employee as a reprisal for making a complaint or disclosing information to the OIG, or for evidencing an intention to make or disclose, unless the complaint was made or the information disclosed with the knowledge that it was false or with willful disregard for its truth or falsity.

#### SECTION 5. PROCEDURES FOR INTERNAL AUDITS.

.01 Annual Audit Plan. After appropriate consultation with Secretarial Officers and the heads of operating units, the IG shall issue an annual audit plan showing internal audits planned for the fiscal year. Priorities will be established to ensure that the order and extent of audit service is in keeping with the determined significance and sensitivity of the activity or function to be audited. Secretarial officers and heads of operating units will be furnished copies of the annual audit plan applicable to their respective responsibilities. Such plans may be changed from time to time by the Inspector General.

.02 Other Requests for Audit Assistance. Department officials may request audit services as needs arrive. Routine requests shall be directed to the AIGA and will be acknowledged within one week of receipt. To the extent audit resources and priorities permit, OA will perform such audits.

.03 Audit Notification. OA will give advance notification of an audit generally by listing the audit in the annual audit plan or by separate written communication. Written communication will be provided for all survey and audit review work expected to require ten (10) or more staff days of audit effort, or when a report to the Departmental office or operating unit under review is planned.

.04 Entrance Conference. Before an audit starts, OA will arrange to discuss with officials responsible for the organization or function to be audited, the purpose, expected scope of the review, anticipated ending date, and other pertinent matters. Department officials should take advantage of this opportunity to assure that they have a clear understanding of the audit objectives. The auditee shall inform the OA representative of areas or activities needing special audit attention and any other pertinent information that would assist in planning the audit.

.05 Audit Performance.

a. At the beginning of an audit, OA may perform an audit survey of the program, entity or function to be audited. The audit survey is a systematic examination and analysis of the organization, methods, and controls governing operations of the audited entity. Principal objectives of the survey are to:

1. ascertain agency problems and concerns,
2. identify areas where the need for detailed audit is indicated, and
3. obtain maximum cost/benefit by pinpointing major items and dropping minor matters. It is important that Department employees, cooperate fully with the auditors in achieving these objectives in order for audits to be of maximum benefit to agencies and to obtain the most effective use of audit resources.

b. At the completion of survey work, any potential findings that have been identified in the survey shall be discussed with officials of the organization to determine whether, without additional survey work or an audit, agreement can be reached between the OA and the office or operating unit as to existence of the findings and the support for them. If agreement is reached, a report will be furnished in accordance with paragraph 5.07 of this Order.

c. OA may issue a preliminary report before completing the full audit when significant findings require immediate management action to curtail or prevent fraud, waste or abuse.

d. During an audit, the auditor shall hold periodic informal meetings with officials of the organization being audited to discuss progress of the audit and matters being developed. During these discussions, the auditee shall express views on the audit results and disclose any facts not previously known to the auditors that could alter conclusions.

.06 Exit Conferences.

a. Upon completion of the audit, the OA representative will hold an exit conference to discuss the results of audits and the proposed recommendations with the head of the Departmental office or operating unit audited and/or other appropriate officials, except for specific items, which, pursuant to applicable audit or investigations policy, may not be disclosed.

b. In order to make these discussions effective, the appropriate Secretarial officer or head of the operating unit shall encourage affected officials and personnel to openly and candidly discuss with OA representatives:

1. audit findings that fall within such officials' areas of responsibility, and
2. those recommendations upon which such officials have the authority to act.

c. Open and candid discussions of audit results help assure that audit reports are factual and that the auditors' conclusions and recommendations are sound and reasonable.

.07 Issuance of Audit Report.

a. After the exit conference, a draft report shall be furnished as expeditiously as possible to the Department officials who have responsibility for taking action on the reported matters. Department officials shall submit written comments that are objective, and pertinent to the matters discussed in the draft report, and as brief as possible to the AIGA within a maximum of 30 calendar days after transmittal of the draft report. A final report may be issued in lieu of a draft report, when mutually agreed to by the audit staff and auditee.

b. The auditee's reactions to the audit findings and recommendations are an important part of the audit. The auditee will, therefore, respond to the report and specifically:

1. state concurrence or reasons for non-concurrence with, and make other pertinent comments about, the findings, and
2. briefly indicate the action taken or proposed to be taken.

c. In the final report, OIG shall include comments received from Department officials including opposing views and statements of actions that have been taken or are proposed. OA may, as appropriate, include a rebuttal in the final report. Copies of final reports will be sent to those Departmental offices concerned with the activity audited and to GAO.

SECTION 6. PROCEDURES FOR EXTERNAL AFFAIRS.

.01 Annual Audit Workload and Priorities. Each year, the IG shall plan for the conduct of audits of Department contracts, grants, cooperative agreements, loans and other financial agreements. Contracting officers, grant administrators, and other designated officials may, from time to time during each fiscal year, request special audits of contracts, agreements, cost proposals, or cost and pricing data, in addition to scheduled audits. Such requests may be directed to the Director, Financial Management Division and will be acknowledged within one week of receipt. OA shall determine, depending on the priority of the matter and the availability of resources, including funds, the extent to which such special audits will be made and the timing thereof.

.02 Audits Performed by the OA. The following procedures shall apply to external audits performed by the OA:

- a. The OA staff shall notify the contractor, grantee, borrower or other recipient to be audited (i.e., the auditee) of the intended starting date for the audit and other arrangements necessary to expedite the audit. The appropriate contracting officer, grant administrator or other designated official also shall be notified of the intended audit and the estimated completion date.
- b. At the beginning of each audit, the auditor shall hold an entrance conference to discuss with the auditee the purpose, expected scope of the review, anticipated ending date, and other pertinent matters.
- c. During the course of an audit, a discussion of the findings will be conducted with the auditee to the fullest extent feasible. At the conclusion of each audit, and except where deemed inappropriate, the auditor-in-charge shall hold an exit conference with the auditee to discuss and obtain concurrence in findings and possible disallowances and to obtain a clear statement of the position taken by the auditee on the findings and possible disallowances.
- d. The final OA reports shall be addressed to the responsible contracting officer, grant administrator, or other designated official.

.03 Audits Performed by Others. The following procedures shall apply to external audits performed by other Federal agencies, State and local Government audit organizations, or independent public accountants:

- a. The AIGA shall prescribe the scope of such audits, including applicable audit programs/guides and other Department criteria; maintain liaison with the organizations performing the audits; and determine the basis of reimbursements, under Departmental contracts or other arrangements for the costs of audits.
- b. Arrangements with the auditee as to date of audit, availability of records, and space accommodations will be handled by the organization conducting the audit.
- c. Reports on the results of audits performed under the Single Audit Act (31 U.S.C.A. ''7501-7507) will be sent to the Regional Inspector General for Audits, Atlanta Regional Office, Atlanta, GA, who will, after appropriate review and comment, transmit the report to the responsible contracting officer, grant administrator, or other designated Federal official. Other audit reports should be sent to the Director, Financial Management Division, office of Audits, Washington, D.C. 20230.

#### SECTION 7. REFERRAL OF FRAUD OR OTHER CRIMINAL ACTIVITY.

Indications of fraud or other criminal activity discovered during the conduct of an audit shall be referred to the Assistant Inspector General for Investigations (AIGI). Audit reports will not be issued until matters under investigation either have been resolved or issuance of the report is cleared by the IG. When the audit is being performed at the request of a contracting officer, grant administrator, or other designated Commerce official, the OA staff will

notify the requestor that the matter has been referred to the AIGI, unless the IG or the AIGI determines that such notification would interfere with an investigation or prosecution.

#### SECTION 8. HANDLING OF AUDIT REPORTS AND AUDIT INFORMATION.

.01 Dissemination of Audit Reports. Audit reports will be submitted to Department officials who have the responsibility for taking action on the reported matters. Copies of the reports may be furnished to other Department officials who have a need for the reports in their work. External reports involving matters other than the review of contracts, loans, or loan guarantees will be provided to the auditee or his/her representative except as provided in Section 7. above or in the fraud, abuse or illegal acts revisions set forth by the GAD in its standards for government auditing.

#### .02 Security of Audit Reports.

a. Audit reports may be marked "For Official Use Only", where deemed necessary by OIG. As such, they become subject to applicable Departmental security regulations concerning administratively controlled materials, as prescribed under DA0 207-2.

b. The availability of any audit report in response to a Freedom of Information Act or Privacy Act request will be determined by the Counsel to the Inspector General initially, regardless of lead agency responsibility for answering the request. All requests for copies of audit reports shall be referred to the AIGA promptly upon receipt by the Departmental office or operating unit, in accordance with applicable Department procedures.

.03 Inquiries Concerning Audit Work. Inquiries to a Departmental office or operating unit concerning internal audit work which is contemplated or in progress shall be referred to the AIGA. Inquiries concerning external audit work that has been planned or is in progress shall be referred either to the AIGA or to the appropriate OA Regional Inspector General. The AIGA and the appropriate Regional Inspector General are authorized to respond to such inquiries. Generally, responses will be limited to an appropriate statement regarding the status of the audit (i.e., the audit is planned, the audit is in progress, and/or the report will be issued on or about a specific date), except where to do so would interfere with an investigation or prosecution.

#### SECTION 9 CORRECTIVE ACTION ON AUDIT REPORTS.

.01 Follow-up on Reports. The OA is responsible for following-up on all open audit recommendations contained in OA reports, IPA reports or other audit agency reports as they relate to the Department or entities funded by the Department.

.02 Audit Resolution Responsibilities. Secretarial officers, heads of operating units, contracting officers, grant administrators, and other designated officials are required by CMB Circular A-50 to:

a. make final written determinations of the action to be taken on audit report recommendations,



- b. initiate action to assure that such determinations are carried out,
- c. assure that final resolution proceeds as rapidly as possible, and
- d. assure that resolution actions are consistent with law and regulations, including written justification or legal basis for rejecting any recommendations and decisions not to seek recovery of amounts due as a result of audit reports. The designated audit liaison (see paragraph 4.02 of this Order and DAO 213-5) shall be the point of contact within the organization on matters concerning unresolved audit recommendations and costs questioned.

.03 Audit Resolution Procedures. Detailed procedures for resolving audit recommendations and costs questioned are contained in DAO 213-5, including requirements for assuring that final written determinations are made within a maximum of six months from issuance of the report, and formally resolved as rapidly as possible, as mandated by applicable OMB Circulars.

SECTION 10. EFFECT ON OTHER ORDERS.

This Order supersedes Department Administrative Order 213-3, dated July 20, 1983, as amended and supplements the information in DAO 213-5.

signed by

Inspector General

approved by

Secretary of Commerce

Office of Primary Interest  
Office of Inspector General